Investment Idea

# VSTECS Bhd

## Riding the AI Wave and Digital Infrastructure

***By Thong Pak Leng, Vice President of Research***

**VSTECS Berhad (VSTECS, 5162) is Malaysia's foremost integrated ICT distributor, with more than 4,000 local channel partners comprising retailers, system integrators, and corporate dealers. The company partners with over 50 renowned international brands, including Apple, Dell, HPE, Microsoft, Huawei, and Asus. VSTECS also provides value-added product support and technical services. We expect VSTECS to register net earnings of RM85.0m and RM104.7m for FY25 and FY26, respectively. BUY with a target price of RM4.47 based on 15x PER (3 years historical average) over FY26 EPS.**

VSTECS' operations span three synergistic business segments, namely (i) ICT Distribution; (ii) Enterprise Systems; and (iii) ICT Services; delivering end-to-end solutions to consumers, enterprises, and public sector clients. Under ICT Distribution, VSTECS offers a wide range of consumer technology products such as smartphones, laptops, tablets, wearables, and peripherals through retail outlets and major e-commerce platforms, including Lazada and Shopee. The ICT Services segment complements hardware and software sales with value-added offerings, including system implementation, cloud migration, training, managed services, and technical support.

VSTECS is actively expanding its portfolio and capabilities across four strategic fronts: (i) deepening vendor relationships and introducing exclusive products, including recent launches from Google and SpaceX; (ii) targeting higher participation in Malaysia's data centre boom by supplying backend infrastructure for hyperscale facilities; (iii) expanding its AI solutions and services to meet the rising demand for intelligent automation; and (iv) scaling up its public sector engagement as national digital transformation efforts gain momentum. VSTECS is also developing AI-as-a-Service (AIaaS) solutions to cater to clients with varying budgets and levels of digital readiness.

In its recent quarterly results, VSTECS' 1QFY25 net earnings jumped 24.5% YoY to RM17.8m, attributed to higher product demand across all three business segments. The balance sheet remains solid with a net cash position exceeding RM100m.

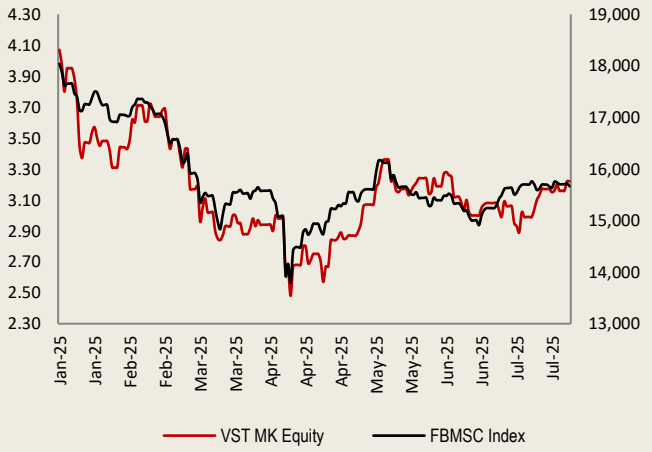
The outlook for VSTECS remains positive, underpinned by high digital adoption, robust consumer device demand, growing AI and data centre investments, and recovering public sector ICT expenditure. VSTECS is well-positioned to capture opportunities across all ICT verticals. Its evolution from a pure distributor to a full-spectrum digital enabler supports recurring revenue growth and enhances long-term shareholder value.

**Technically Speaking**

| | |
|---|---|
| Resistance level | RM3.25 |
| Support level | RM3.13 |

**BUY**

| | |
|---|---|
| **Price:** | **RM3.21** |
| **Target price:** | **RM4.47** |




| | |
|---|---|
| KLCI | 1,524.50 |
| YTD FBM KLCI change | -7.2% |
| YTD FBM SC Index change | -13.0% |
| YTD stock price change | -20.1% |

**Stock Information**

| | |
|---|---|
| Market Cap (RM'm) | 1,148.1 |
| Issued Shares (m) | 356.6 |
| 52-week range (H) | 4.17 |
| 52-week range (L) | 2.45 |
| Shariah Compliant | Yes |

**Major Shareholders**

| | |
|---|---|
| VSTECS Holdings LTD | 43.1% |
| Lee Marn Fong | 12.4% |
| Dasar Technologies SB | 12.2% |

**Summary Earnings Table**

| FY Dec (RM'm) | 2023 | 2024 | 2025F | 2026F |
|---|---|---|---|---|
| Revenue | 2,727.2 | 2,901.7 | 3,627.1 | 4,388.8 |
| EBITDA | 80.9 | 86.9 | 116.2 | 145.0 |
| Pretax profit | 82.8 | 93.1 | 113.7 | 141.0 |
| PATMI | 67.4 | 70.6 | 87.8 | 110.2 |
| **Core PATMI** | **67.4** | **70.6** | **85.0** | **107.4** |
| Consensus | - | - | 86.0 | 104.0 |
| Core EPS (sen) | 18.7 | 19.6 | 23.6 | 29.8 |
| EPS growth (%) | 13.0% | 4.7% | 20.4% | 26.4% |
| DPS (sen) | 6.1 | 6.8 | 8.5 | 10.7 |
| PER (x) | 17.1 | 16.4 | 13.6 | 10.8 |
| BV/Share (RM) | 1.27 | 1.40 | 1.43 | 1.63 |
| ROE (%) | 15.5% | 14.7% | 18.6% | 20.0% |
| Div. Yield (%) | 1.9% | 2.1% | 2.7% | 3.3% |

*Sources: Company, Rakuten Trade Research*

| COMPANY | Definition |
|---|---|
| **Buy** | The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months. |
| **Trading Buy** | Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks. |
| **Take profit** | The stock return previously recommended has gained by >10% |
| **Hold** | The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months. |
| **Sell** | The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months. |
| **SECTOR** | |
| **Overweight** | Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months. |
| **Neutral** | Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months. |
| **Underweight** | Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months. |

**Scoring model:**

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

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